



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2011 AND 2010

CPAs / ADVISORS



DEACONESS HEALTH SYSTEM, INC.

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Blue & Co., LLC / One American Square, Suite 2200 / Box 82062 / Indianapolis, IN 46282
main 317.633.4705 fax 317.633.4889 email blue@blueandco.com

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Deaconess Health System, Inc.
Evansville, Indiana

We have audited the consolidated balance sheets of Deaconess Health System, Inc. (System) as of September 30, 2011 and 2010 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of September 30, 2011 and 2010 and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

December 15, 2011

DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2011 AND 2010

ASSETS		
	2011	2010
Current assets		
Cash and cash equivalents	\$ 59,961,722	\$ 56,093,410
Funds held by trustee, current portion	7,247,329	32,280,782
Patient accounts receivable, less allowance for estimated uncollectible amounts of \$36,345,000 in 2011 and \$27,845,000 in 2010	119,897,554	113,787,194
Inventories	5,169,428	6,110,441
Prepaid expenses and other current assets	12,072,572	12,498,906
Total current assets	204,348,605	220,770,733
Investments limited as to use, less current portion		
Board designated funds	180,044,293	148,124,612
Funds held by trustee	-0-	3,503,922
Temporarily restricted	8,353,428	8,130,489
Total investments limited as to use	188,397,721	159,759,023
Property and equipment		
Land and improvements	18,026,313	17,967,232
Buildings and fixed equipment	453,372,349	399,131,262
Movable equipment	203,373,194	194,671,499
	674,771,856	611,769,993
Less allowances for depreciation	384,842,904	351,694,604
	289,928,952	260,075,389
Construction in progress	69,578,108	90,473,250
Total property and equipment, net	359,507,060	350,548,639
Other assets		
Deferred financing costs	2,754,780	2,933,648
Investments in joint ventures and other	51,596,649	51,927,242
Total other assets	54,351,429	54,860,890
Total assets	<u>\$ 806,604,815</u>	<u>\$ 785,939,285</u>

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2011 AND 2010

LIABILITIES AND NET ASSETS

	2011	2010
Current liabilities		
Accounts payable and other current liabilities	\$ 34,586,775	\$ 41,785,507
Salaries, wages and related liabilities	30,380,298	27,076,112
Estimated third-party payor settlements	6,273,267	5,525,997
Accrued interest	1,076,281	1,022,831
Line of credit	1,131	1,520,188
Current portion of long-term debt	10,257,530	9,241,622
Total current liabilities	82,575,282	86,172,257
Long-term liabilities		
Long-term debt, less current portion	228,251,902	235,411,006
Other long-term liabilities	69,426,151	60,962,306
Total long-term liabilities	297,678,053	296,373,312
Total liabilities	380,253,335	382,545,569
Net assets		
Unrestricted	408,544,371	386,970,013
Temporarily restricted	8,353,428	8,130,489
Net assets - controlling interest	416,897,799	395,100,502
Non-controlling interest	9,453,681	8,293,214
Total net assets	426,351,480	403,393,716
Total liabilities and net assets	<u>\$ 806,604,815</u>	<u>\$ 785,939,285</u>

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Unrestricted revenue and other support		
Net patient service revenue	\$ 620,370,570	\$ 596,147,857
Other revenue	26,360,537	23,620,391
Total unrestricted revenue and other support	646,731,107	619,768,248
Expenses		
Salaries and wages	239,543,636	231,983,800
Employee benefits	63,330,590	61,935,271
Supplies	110,157,178	105,977,878
Contract services	67,034,869	67,103,228
Repairs and maintenance	19,266,601	19,692,800
Provision for bad debts	29,515,858	26,567,615
Depreciation and amortization	36,192,720	37,064,471
Interest	9,309,117	6,703,105
Utilities	13,176,217	12,155,122
Other	29,013,504	28,414,384
Total expenses	616,540,290	597,597,674
Income from operations	30,190,817	22,170,574
Nonoperating gain		
Investment income and other nonoperating	6,249,827	4,592,610
Excess revenues over expenses	36,440,644	26,763,184
Other changes in unrestricted net assets		
Net unrealized gain (loss) on investments	(3,792,012)	7,507,505
Pension related changes other than net periodic pension cost	(3,997,956)	7,620,595
Other changes in unrestricted net assets	200,000	-0-
Change in unrestricted net assets	28,850,676	41,891,284
Temporarily restricted net assets		
Contributions, gifts and bequests	1,293,267	1,683,531
Net unrealized gain on investments	228,224	332,163
Investment income	341,281	91,609
Net assets released from restriction	(1,639,833)	(1,410,601)
Change in temporarily restricted net assets	222,939	696,702
Consolidated change in net assets	29,073,615	42,587,986
Less amount attributable to non-controlling interest	(7,276,318)	(4,703,236)
Change in net assets attributable to controlling interest	<u>\$ 21,797,297</u>	<u>\$ 37,884,750</u>

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	Controlling Interest	Non-controlling Interest	Total
	<u> </u>	<u> </u>	<u> </u>
Net assets			
September 30, 2009	\$ 357,215,752	\$ 7,595,959	\$ 364,811,711
Change in net assets	37,884,750	4,703,236	42,587,986
Contributions	-0-	255,286	255,286
Distributions	<u>-0-</u>	<u>(4,261,267)</u>	<u>(4,261,267)</u>
September 30, 2010	395,100,502	8,293,214	403,393,716
Change in net assets	21,797,297	7,276,318	29,073,615
Distributions	<u>-0-</u>	<u>(6,115,851)</u>	<u>(6,115,851)</u>
September 30, 2011	<u>\$ 416,897,799</u>	<u>\$ 9,453,681</u>	<u>\$ 426,351,480</u>

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Operating activities		
Change in net assets	\$ 29,073,615	\$ 42,587,986
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	36,192,720	37,064,471
Provision for bad debts	29,515,858	26,567,615
Net realized and unrealized (gain) loss on investments	2,956,670	(7,546,941)
Loss on disposal of assets	598,793	166,138
Amortization of deferred financing costs and original issue discount	237,872	255,298
Pension related changes other than net periodic pension cost	3,997,956	(7,620,595)
Changes in operating assets and liabilities		
Patient accounts receivable	(35,626,218)	(33,670,580)
Other current assets	1,367,347	(2,113,847)
Accounts payable and other current liabilities	(7,198,732)	2,184,648
Salaries, wages and related liabilities	3,304,186	72,913
Estimated third-party payor settlements	747,270	3,908,553
Accrued interest	53,450	(23,684)
Pension liability and other	4,465,889	3,488,850
Net cash flows from operating activities	69,686,676	65,320,825
Investing activities		
Purchases of property and equipment	(42,279,587)	(76,311,502)
Proceeds from disposal of assets	33,467	-0-
Transfers to/from trustee assets for principal, interest and construction draws	28,537,375	45,524,551
Purchases of investments	(113,585,944)	(95,445,379)
Proceeds from sale of investments	78,486,654	97,490,014
Change in investments in joint ventures and other	330,593	1,424,489
Net cash flows from investing activities	(48,477,442)	(27,317,827)
Financing activities		
Receipts from non-controlling interest investors	-0-	255,286
Distributions to non-controlling interest investors	(6,115,851)	(4,261,267)
Payments on line of credit, net	(1,519,057)	(4,706,015)
Payments on long-term debt	(9,706,014)	(9,285,325)
Net cash flows from financing activities	(17,340,922)	(17,997,321)
Change in cash and cash equivalents	3,868,312	20,005,677
Cash and cash equivalents		
Beginning of year	56,093,410	36,087,733
End of year	<u>\$ 59,961,722</u>	<u>\$ 56,093,410</u>

See accompanying notes to consolidated financial statements.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Deaconess Health System, Inc. (System) is granted the authority to provide overall direction and control of its subsidiaries, the most significant of which is Deaconess Hospital, Inc. through the bylaws of the System and its subsidiaries.

Deaconess Hospital, Inc. (Hospital), located in Evansville, Indiana, is a general acute care facility with an operational capacity of 541 beds and associated ancillary service departments.

On October 1, 2008, Deaconess Clinic, Inc. (Clinic) was formed as a new subsidiary corporation of the System. The Clinic is comprised of the Deaconess employed primary care physicians known as Deaconess Medical Group and the former Welborn Clinic, a multi-specialty physician group.

The Hospital holds majority ownership interests in the following entities:

- The Heart Hospital at Deaconess Gateway, LLC – 51%
- Heartcare Health System, LLC – 70%
- Progressive Health of Indiana, LLC – 51%
- Tri-State Radiation Oncology, LLC – 51%
- Deaconess Health Plans, LLC – 93%

The Heart Hospital at Deaconess Gateway, LLC is a 24 bed cardiovascular hospital providing a full spectrum of heart care such as; preventative care, medical care, emergent care, diagnostic testing, cardiovascular procedures, cardiovascular surgery and cardiac rehabilitation on an outpatient and inpatient basis.

Heartcare Health System, LLC facilitates collaboration on cardiac services with emphasis on cost reduction and quality improvement.

Progressive Health of Indiana, LLC provides physical, occupational and speech therapy services.

Tri-State Radiation Oncology, LLC provides oncology services.

Deaconess Health Plans, LLC is a preferred provider organization – managed care network.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Principles of Consolidation

The consolidated financial statements include the accounts of Deaconess Health System, Inc. and its wholly owned and controlled subsidiaries. All material inter-company accounts and transactions have been eliminated in consolidation.

Investments in Joint Ventures

The Hospital is a 50% owner in a joint venture (Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital) dedicated to providing healthcare services for women. The Hospital recorded an investment in The Women's Hospital of approximately \$2,612,000 and \$2,379,000 as of September 30, 2011 and 2010, respectively.

The Hospital holds a 50% ownership interest in an ambulatory surgery center (Evansville Surgery Center Associates, LLC). The Hospital recorded an investment in Evansville Surgery Center Associates, LLC of approximately \$10,478,000 and \$11,582,000 as of September 30, 2011 and 2010, respectively.

The Hospital also holds a 22% ownership interest in an 80-bed rehabilitation facility (HealthSouth/Deaconess, LLC, d/b/a HealthSouth Deaconess Rehabilitation Hospital). The Hospital recorded an investment in the HealthSouth Deaconess Rehabilitation Hospital of approximately \$4,339,000 and \$4,128,000 as of September 30, 2011 and 2010, respectively.

Investments in organizations where the System's ownership percentage is equal to or less than 50% are included in investments in joint ventures and other assets on the consolidated balance sheets. The System's portion of income from unconsolidated organizations is reported with other revenue and was approximately \$14,368,000 and \$10,523,000 for 2011 and 2010, respectively.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the allowance for estimated uncollectible accounts, estimated third-party payor settlements, defined pension plan obligations and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period and could differ from actual results.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Charity Care, Community Benefit and Assistance to the Uninsured

The System provides care to patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the System. Essentially, these policies define charity services as those services for which no payment or reduced payment based upon a graduated scale, is anticipated, up to 300% of Federal Poverty Income Guidelines, published by the Department of Health and Human Services and where incurred charges are considered significant when compared to the income of the patient. Because collection of amounts determined to qualify as charity care is not pursued, such amounts are not reported as revenue.

The System enhanced its charity care policy to more accurately reflect current economic conditions and other factors unique to the System's customer base. Charity care provided during 2011 and 2010, measured at established rates, was approximately \$81,453,000 and \$61,118,000, respectively. In addition, other programs and services for the benefit of the community are provided. The costs of these programs are included in operating expenses. The System receives reimbursements from certain governmental payors to assist in the funding of charity care.

The System has a policy for uninsured patients with discounted rates similar to contractual payors. Uninsured self pay discounts provided to patients were approximately \$2,949,000 and \$2,149,000 in 2011 and 2010, respectively.

Statements of Cash Flows

Cash and cash equivalents are defined as investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by arrangements under trust agreements, board designation or by donors. The System maintains its cash in accounts, which at times may exceed federally insured limits. The policy of the System is to collateralize deposits. The System has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash and cash equivalents.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Additional cash flows information for 2011 and 2010 is as follows;

	2011	2010
Supplemental cash flows information:		
Cash paid for interest, net of capitalized interest	\$ 9,256,000	\$ 6,727,000
Interest expense capitalized	\$ 911,000	\$ 3,747,000
Interest income capitalized	\$ 134,000	\$ 569,000
Property and equipment in liabilities	\$ 1,071,000	\$ 2,205,000
Equipment acquired through capital leases	\$ 3,504,000	\$ -0-

Patient Accounts Receivable, Estimated Third-Party Payor Settlements and Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others (principally insurers) for services rendered. Estimated retroactive adjustments under reimbursement agreements with certain third-party payors are included with estimated third-party payor settlements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Management estimates an allowance for uncollectible accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the System's customer base.

Inventories

Inventories (principally pharmaceuticals and medical supplies) are stated at the lower of cost (first in, first out) or market.

Property and Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset using the straight-line method. Equipment under capital leases is amortized on the straight-line method over the lease term or the estimated useful life of the equipment, if shorter. Amortization is included with depreciation.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Investments Limited as to Use

Investments are stated at fair value. Dividends, interest income and realized gains and losses on sales of investments are recorded as nonoperating investment income. Unrealized gains (losses) on investments are reported as other changes in net assets in the consolidated statements of operations and changes in net assets.

Investments consist of short-term investments (principally money market mutual funds), US Government and government agency obligations, marketable debt securities (corporate bonds and fixed income mutual funds), marketable equity securities (common and preferred corporate stock, equity mutual funds and private equity investments) and guaranteed investment contracts. Fair values for investments are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Private equity investments consist of limited partnerships investing in common stock of small and medium capitalization companies. Investments in those limited partnerships are reported at fair value as determined by the individual manager of each partnership. Although the manager uses its best judgment in estimating the fair value of the investments in the investment funds, there are inherent limitations in any estimation technique. Therefore, the values reported are not necessarily indicative of the amount that the investments funds could realize in a current transaction.

These estimated values may differ significantly from the values that would have been used had a ready market for the investments in the investment funds existed and the difference could be material. Private equity investments totaled approximately \$5,049,000 (2.6% of investment portfolio) and \$2,655,000 (1.4% of investment portfolio) as of September 30, 2011 and 2010, respectively.

Investments limited as to use include assets held by trustees under indenture agreements and amounts set aside by the Board of Directors for future capital improvements and retirement of debt over which the Board retains control and may at its discretion subsequently designate for other purposes. Amounts required to meet current liabilities of the System have been classified as current assets.

Deferred Financing Costs

Costs incurred in connection with the issuance of debt are amortized over the term of the related debt using the bonds outstanding method.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Goodwill

As of September 30, 2011 and 2010, the System recorded goodwill of approximately \$23,000,000 respectively, related to the acquisition of majority owned entities. Goodwill is included within investments in joint ventures and other assets on the consolidated balance sheets.

The Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Not-for-Profit Entities topic related to goodwill was amended for the System's fiscal year beginning October 1, 2010. Under the amended guidance, goodwill is no longer amortized but is tested for impairment on an annual basis, or whenever an event occurs or circumstances indicate the carrying value of the goodwill may be impaired. The System performed the required annual impairment test for goodwill as of September 30, 2011 using the discounted cash flows approach. The System determined no impairment of goodwill existed as of September 30, 2011. During 2010, under the previous guidance, goodwill was amortized over an estimated useful life. The System recognized amortization of goodwill of approximately \$413,500 in 2010.

Medical Malpractice

Malpractice insurance coverage is provided under a claims-made policy. Should the claims-made policy be terminated, the Hospital has the option to purchase insurance for claims having occurred during its term but reported subsequently. Prior to July 1, 1999, the Indiana Medical Malpractice Act (Act) provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

Effective October 1, 2003, the System became a member in a Vermont captive insurance company, Indiana Healthcare Reciprocal Risk Retention Group, to fund the Hospital's required portion of the professional, physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage. This provides protection from liability in an amount not to exceed \$250,000 per incident and aggregate liability protection not to exceed \$7,500,000 per year. In addition, the Hospital maintains a commercial umbrella/excess liability policy with a limit of \$15,000,000 each occurrence, \$15,000,000 aggregate per member and \$30,000,000 total policy aggregate.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Performance Indicator

The consolidated statements of operations contain a performance indicator, excess revenues over expenses. Consistent with industry practice, unrealized gain and loss on other than trading investments, pension related changes other than net periodic pension cost, equity transfers, contributions restricted for long-term purposes and certain other items are excluded from the performance indicator.

Pension Plan

The System's defined benefit pension plan covers substantially all employees. The benefits are based on years of service and each employee's compensation during the years of employment. Contributions to the plan include amortization of past service costs plus interest thereon over approximately ten years and are currently funded.

Income Taxes

The System, Hospital and Clinic are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. However, they are required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the System and recognize a tax liability if the System has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the System and has concluded that as of September 30, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The System is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The remaining consolidated subsidiaries are organized as limited liability companies, whereby net taxable income is taxed directly to the members of the limited liability companies. Thus, the consolidated financial statements do not include any provision for Federal or State income taxes related to these entities.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

These entities have filed their federal and state income tax returns for periods through their most recent fiscal year ends (primarily December 31, 2010). These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Temporarily Restricted Net Assets

Temporarily restricted net assets include those assets whose use by the System has been temporarily limited primarily for capital projects or a specified time period or purpose. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restriction, which is included with other revenue. The following is a summary of temporarily restricted net assets as of September 30, 2011 and 2010:

	2011	2010
Education and scholarship	\$ 5,049,358	\$ 4,705,695
Capital and Hospital specific	2,604,106	2,726,156
Tribute	699,964	698,638
	<u>\$ 8,353,428</u>	<u>\$ 8,130,489</u>

Advertising Costs

Advertising costs are expensed as incurred. Total expense for 2011 and 2010 was approximately \$1,991,000 and \$1,744,000, respectively.

Functional Expenses

The System provides health care services to patients in the community and the surrounding areas. Health care services and other certain related expenses were approximately \$564,790,000 and \$547,438,000 for 2011 and 2010, respectively. General and administrative expenses were approximately \$51,750,000 and \$50,160,000 for 2011 and 2010, respectively.

Reclassification

Certain 2010 amounts in the consolidated financial statements have been reclassified to conform to the 2011 presentation. The effect of these reclassifications had no effect on previously reported change in net assets or net assets.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Subsequent Events

The System evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is December 15, 2011.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services, outpatient services and physician services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Certain outpatient services and defined medical education costs related to Medicare beneficiaries are paid based on cost reimbursement methodologies. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Inpatient non-acute care services are generally reimbursed based upon cost reimbursement methodologies.

Medicaid

Medicaid services are paid at prospectively determined rates per day or per discharge for inpatients or per occasion of service for outpatients. To the extent that services to Medicare and Medicaid program beneficiaries are reimbursed based on cost reimbursement methodologies, final settlement is determined after submission of annual cost reports and audits thereof by the fiscal intermediary.

Estimates for final settlements of all unaudited Medicare and Medicaid cost reports through September 30, 2011 have been recorded. Cost reports through September 30, 2006 have been audited and settled as of September 30, 2011.

The Hospital has also entered into payment agreements with certain other commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the consolidated statements of operations for 2011 and 2010 is as follows:

	2011	2010
Patient service revenue	\$ 1,678,276,588	\$ 1,540,936,504
Adjustments		
Charity care revenue foregone	81,452,985	61,118,395
Uninsured self pay discounts	2,948,832	2,148,891
Contractual adjustments	973,504,201	881,521,361
Total adjustments	1,057,906,018	944,788,647
Net patient service revenue	\$ 620,370,570	\$ 596,147,857

Changes to any previous year's estimated settlement are reflected in the period the intermediary finalizes its audit of cost reports, or when additional information becomes available. Settlements related to prior year cost reports resulted in no change to net patient service revenue in 2011 and 2010.

The following is mix of gross patient accounts receivable and gross patient service revenue for 2011 and 2010:

	Receivable		Revenue	
	2011	2010	2011	2010
Medicare	26%	24%	45%	45%
Medicaid	9%	8%	10%	9%
Commercial and managed care	41%	45%	39%	40%
Self pay and other	24%	23%	6%	6%
	100%	100%	100%	100%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

3. LONG-TERM DEBT

The following is a summary of long-term debt as of September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Hospital Revenue Bonds, Series 1992 Serial bonds, payable annually from January 2004 through January 2022 in amounts ranging from \$600,000 to \$1,700,000 plus interest at variable rates (.13% and .27% as of September 30, 2011 and 2010, respectively)	\$ 13,800,000	\$ 14,600,000
Hospital Revenue Refunding Bonds, Series 1993 Variable Rate Certificates with maturities beginning in 2004 and ending in 2015; interest rate at SIFMA plus 125 basis points (1.43% and 1.78% as of September 30, 2011 and 2010, respectively)	11,140,000	13,950,000
Hospital Revenue Refunding Bonds, Series 1999A Term bonds, payable from March 2010 through March 2029 in amounts ranging from \$605,000 to \$1,715,000 with interest; rates ranging from 5.50% to 5.75%	20,270,000	20,910,000
Hospital Revenue Bonds, Series 1999B (taxable) Serial bonds, payable annually from January 2003 through January 2019 in amounts ranging from \$600,000 to \$1,600,000 plus interest at variable rates (.36% and .30% as of September 30, 2011 and 2010, respectively)	10,200,000	11,200,000
Hospital Revenue Bonds, Series 2004A Term bonds, payable from March 2020 through March 2034 in amounts ranging from \$440,000 to \$8,065,000 with interest; rates ranging from 5.00% to 5.375%	54,765,000	54,765,000
Hospital Revenue Bonds, Series 2004B Serial bonds, payable annually from January 2010 through January 2029 in amounts ranging from \$870,000 to \$1,720,000 plus interest at variable rates (.16% and .28% as of September 30, 2011 and 2010, respectively)	23,225,000	24,130,000
Hospital Revenue Bonds, Series 2009A Term bonds, payable annually from March 2020 through March 2039 in amounts ranging from \$55,000 to \$12,110,000 with interest; fixed rate 6.75%	57,340,000	57,340,000

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

	2011	2010
Hospital Revenue Bonds, Series 2009B		
Serial bonds, payable annually from March 2016 through March 2039 in amounts ranging from \$195,000 to \$2,855,000 plus interest at variable rates (.19% and .28% as of September 30, 2011 and 2010, respectively)	\$ 40,000,000	\$ 40,000,000
Original issue discounts and premiums, net	(1,474,081)	(1,533,085)
Capital lease obligations, payable in installments ranging from \$3,900 to \$385,000 with interest ranging from 5% to 11%, expiring through November 2015, secured by equipment	6,572,522	5,858,590
Notes payable, due in monthly installments through October 2014; interest ranging from 4.85% to 8.00%, secured by equipment	2,670,991	3,432,123
	238,509,432	244,652,628
Less current portion	10,257,530	9,241,622
Long-term debt, net of current portion	<u>\$ 228,251,902</u>	<u>\$ 235,411,006</u>

In 2004, the Hospital refinanced its existing Series 1993 Fixed Rate Bonds through the issuance of Variable Rate Certificates. As part of the refinancing:

- The Hospital obtained the appropriate approvals and documented amendments from the Trustee and called the Series 1993 Fixed Rate Bonds at the first optional call date in 2004 from the current bondholders, paying a call premium of 102.
- The Hospital sold the Series 1993 Fixed Rate Bonds to an unrelated third-party Financial Institution.
- The Financial Institution sold the Series 1993 Fixed Rate Bonds to a Trust (also a subsidiary of the Financial Institution).
- The Trust issued variable certificates, which will be remarketed and repriced weekly. Variable certificate holders will have the right to put their ownership interest in the Trust on a weekly basis at par.
- The Hospital entered into a Total Return Distribution Agreement with the Financial Institution under which the Hospital receives the fixed rate on the Series 1993 Fixed Rate Bonds and pays a variable rate equal to the SIFMA Index plus 125 basis points. This Agreement also includes a total return payment at termination equal to any gain (paid by the Financial Institution) or loss (paid by the Hospital) in the value of the Series 1993 Fixed Rate Bonds.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

The Hospital still bears the risks and rewards of ownership due to the nature of the Total Return Distribution Agreement as discussed above which expires September 2013. The net result of this series of transactions is that the Hospital converted its old fixed rate debt to lower variable rate debt with substantial future savings.

In addition, both the Total Return Distribution Agreement between the Hospital and the Financial Institution and the Financial Institution's residual interest in the Trust are considered derivative instruments and marked to market in accordance with the appropriate FASB ASC topic each period. The fair value of the derivative instruments are deemed immaterial. Therefore, any further fair value disclosures related to the derivative instruments are not included in these consolidated financial statements.

The Series 1993 Bonds fell below par value and the System transferred approximately \$800,000 to a restricted account to serve as collateral. This amount is included in funds held by trustee on the consolidated balance sheet as of September 30, 2011 and 2010.

The fair value of the fixed rate Hospital Revenue and Revenue Refunding Bonds (Series 1999A, 2004A and 2009A) approximated \$138,005,000 (carrying value of \$132,375,000) as of September 30, 2011. The fair value of the fixed rate obligations is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of variable rate debt (Series 1992, 1999B, 2004B, 2009B and Variable Rate Certificates) approximates its carrying value based on the underlying nature of the related debt.

Interest rates for the variable rate Series 1992, 1999B, 2004B and 2009B bonds and the Variable Rate Certificates are determined on a weekly basis. As provided in the bond agreements, the interest rate determination is subject to conversion, as elected by the Hospital, to other interest modes which determine the frequency, dates, and calculation of interest payments. In addition, bondholders have the option to present the Series 1992 or 1999B bonds for purchase at various times during the year. Commercial banks have agreed, pursuant to two separate Standby Purchase and Credit Agreements (Agreements), to provide liquidity support should any of the Series 1992 or 1999B bonds presented by bondholders for purchase not be remarketed. The Agreements are subject to renegotiations and renewals.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

The Series 1992 letter of credit, in the amount of approximately \$13,800,000 with no outstanding balance as of September 30, 2011 expires in August 2013. In the event of a failed remarketing, a liquidity advance bears interest at the bank's prime rate plus 1%, payable monthly. Principal on the liquidity advance is due in twelve equal quarterly installments beginning 367 days after the liquidity advance. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

The Series 1999B letter of credit, in the amount of approximately \$10,200,000 with no outstanding balance as of September 30, 2011 expires in July 2014. In the event of a liquidity drawing, the System will reimburse the bank in quarterly installments through the termination date unless the bonds are remarketed, redeemed or purchased at which time the liquidity advance is due. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

The Series 2004B letter of credit, in the amount of approximately \$23,225,000 with no outstanding balance as of September 30, 2011 expires in August 2013. Any liquidity advance is due at the earlier of the stated expiration date of the letter of credit (August 2013), the date the pledged bonds are redeemed pursuant to the bond indenture, the date the pledged bonds are remarketed or purchased by the Hospital or the date an alternative credit facility is issued. Principal on the liquidity advance is due in twelve equal quarterly installments beginning 367 days after the liquidity advance. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

The Series 2009B letter of credit, in the amount of approximately \$40,000,000 with no outstanding balance as of September 30, 2011 expires in July 2014. Any liquidity advance is due at the earlier of the stated expiration date of the letter of credit (June 2014), the date the pledged bonds are redeemed pursuant to the bond indenture, the date the pledged bonds are remarketed or purchased by the Hospital or the date an alternative credit facility is issued. Reimbursements of other than liquidity drawings are due on the date such drawing is honored.

Additionally, the Series 1992, 1999A, 1999B, 2004A, 2004B, 2009A and 2009B bonds and the Variable Rate Certificates are secured by a security interest in the Hospital's revenue. The System covenants that it will not permit any lien or security interest on the Hospital facility other than certain permitted encumbrances. In addition, the various agreements require maintenance of certain debt service income ratios, limit additional borrowings, and require compliance with various other restrictive covenants.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

The asset cost on the capital leased assets as of September 30, 2011 and 2010 was approximately \$13,272,000 and \$12,661,000, respectively. The accumulated amortization on the capital leased assets as of September 30, 2011 and 2010 was approximately \$6,230,000 and \$3,259,000, respectively.

As of September 30, 2011, the System had no significant construction commitments.

Aggregate maturities of long-term debt are as follows:

Year Ending September 30,	
2012	\$ 10,257,530
2013	10,246,164
2014	8,664,891
2015	6,308,121
2016	4,736,807
Thereafter	<u>198,295,919</u>
	<u><u>\$ 238,509,432</u></u>

Subsequent to September 30, 2011, the System refinanced the Series 1999A Bonds with Series 2011A Bonds issued for \$20,075,000 due through 2029 with fixed rates ranging from 2.5% to 6.0%. The annual principal amounts between the Series 1999A Bonds and Series 2011A Bonds are similar.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

4. INVESTMENTS

Investments at fair value consisted of the following as of September 30:

	2011	2010
Board designated funds		
Cash and short-term investments	\$ 591,494	\$ 6,861,972
Common stock	22,043,184	20,276,401
Mutual funds	96,132,236	58,027,985
US Government and government agency obligations	18,048,393	19,959,599
Corporate bonds	37,769,979	39,941,999
Private equity	5,049,449	2,655,254
Accrued interest and other	409,558	401,402
	<u>180,044,293</u>	<u>148,124,612</u>
Funds held by trustee		
Cash and short-term investments	1,687,395	13,107,751
Guaranteed investment contracts	-0-	17,030,927
US Government and government agency obligations	5,559,934	5,646,026
	<u>7,247,329</u>	<u>35,784,704</u>
Less current portion	<u>7,247,329</u>	<u>32,280,782</u>
	-0-	3,503,922
Temporarily restricted		
Cash and short-term investments	164,989	252,936
Common stock	1,271,493	1,347,775
Mutual funds	5,720,205	5,726,809
US Government and government agency obligations	953,936	793,515
Accrued interest and other	242,805	9,454
	<u>8,353,428</u>	<u>8,130,489</u>
Investments limited as to use, net	<u>\$ 188,397,721</u>	<u>\$ 159,759,023</u>

Investments reported as current assets are those that the System has made available for use in operations within the next twelve months. Investments limited as to use that are required for obligations classified as current liabilities are also reported in current assets.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

A detail of investment income and other nonoperating for 2011 and 2010 is as follows:

	2011	2010
Interest and dividends	\$ 6,241,502	\$ 5,051,475
Net realized gain (loss)	607,118	(292,727)
Investment income, net	6,848,620	4,758,748
Loss on disposal of assets	(598,793)	(166,138)
	<u>\$ 6,249,827</u>	<u>\$ 4,592,610</u>

The following schedule summarizes the fair value of securities included in investments limited as to use that have gross unrealized losses (the amount by which historical cost exceeds the fair value) as of September 30, 2011 and 2010. The schedule further segregates the securities that have been in a gross unrealized position as of September 30, 2011 and 2010, for less than twelve months and those for twelve months or more. The gross unrealized losses of less than twelve months are a reflection of the normal fluctuations of the market and are therefore considered temporary.

The gross unrealized losses of twelve months or longer are reflective of current market fluctuations. The majority of the decline is attributable to several securities which industry experts expect recovery in the short-term future. These individual investments have projected recoveries in value in 2012. The decline in value is determined by management to be temporary, and unrealized losses have not been reclassified to realized losses as of September 30, 2011 and 2010. During 2010, the System did reclassify unrealized losses of approximately \$2,015,000 to realized losses for other than temporary impairment of investments.

Description of Securities	September 30, 2011					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government and government agency obligations	\$ 1,350,867	\$ 23,362	\$ 10,174	\$ 390	\$ 1,361,041	\$ 23,752
Marketable debt securities	33,779,197	1,025,390	2,692,444	80,938	36,471,641	1,106,328
Marketable equity securities	15,041,722	1,688,805	31,243,215	6,576,729	46,284,937	8,265,534
Total temporarily impaired securities	<u>\$ 50,171,786</u>	<u>\$ 2,737,557</u>	<u>\$ 33,945,833</u>	<u>\$ 6,658,057</u>	<u>\$ 84,117,619</u>	<u>\$ 9,395,614</u>

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Description of Securities	September 30, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government and government agency obligations	\$ 1,574,306	\$ 6,786	\$ -0-	\$ -0-	\$ 1,574,306	\$ 6,786
Marketable debt securities	5,267,374	99,056	134,064	27,599	5,401,438	126,655
Marketable equity securities	897,406	118,979	32,170,595	5,562,816	33,068,001	5,681,795
Total temporarily impaired securities	<u>\$ 7,739,086</u>	<u>\$ 224,821</u>	<u>\$ 32,304,659</u>	<u>\$ 5,590,415</u>	<u>\$ 40,043,745</u>	<u>\$ 5,815,236</u>

The System's investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

5. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for level 3 assets measured at fair value:

Guaranteed investment contracts are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit worthiness of the issuer.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Private equity investments, consisting of mainly limited partnerships, are valued at the percentage ownership of the net asset value as reported to the System by the individual managers. The limited partnerships invest in a variety of domestic and foreign equity and debt securities, managed accounts and other investment vehicles that employ diversified styles and strategies.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and 2010 are as follows:

	September 30, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Investments limited as to use				
Common stock				
Consumer	\$ 6,192,511	\$ 6,192,511	\$ -0-	\$ -0-
Financial services	3,787,908	3,787,908	-0-	-0-
Industrial	3,401,834	3,401,834	-0-	-0-
Technology	3,769,918	3,769,918	-0-	-0-
Other	6,162,506	6,162,506	-0-	-0-
Total common stock	23,314,677	23,314,677	-0-	-0-
Mutual funds				
Intermediate term bond	59,138,996	59,138,996	-0-	-0-
International equity	9,954,790	9,954,790	-0-	-0-
Large cap	18,339,899	18,339,899	-0-	-0-
Small cap	14,418,756	14,418,756	-0-	-0-
Total mutual funds	101,852,441	101,852,441	-0-	-0-
US Government and government agency obligations	24,562,263	24,562,263	-0-	-0-
Corporate bonds				
Financial services	14,224,594	-0-	14,224,594	-0-
Industrial	6,267,542	-0-	6,267,542	-0-
Other	17,277,843	-0-	17,277,843	-0-
Total corporate bonds	37,769,979	-0-	37,769,979	-0-
Private equity	5,049,449	-0-	-0-	5,049,449
	192,548,809	\$ 149,729,381	\$ 37,769,979	\$ 5,049,449
Cash and short-term investments	2,443,878			
Accrued interest and other	652,363			
	<u>\$ 195,645,050</u>			

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

	September 30, 2010			
	Total	Level 1	Level 2	Level 3
Assets				
Investments limited as to use				
Common stock	\$ 21,624,176	\$ 21,624,176	\$ -0-	\$ -0-
Mutual funds	63,754,794	63,754,794	-0-	-0-
US Government and government agency obligations	26,399,140	26,399,140	-0-	-0-
Corporate bonds	39,941,999	-0-	39,941,999	-0-
Guaranteed investment contracts	17,030,927	-0-	-0-	17,030,927
Private equity	2,655,254	-0-	-0-	2,655,254
	<u>171,406,290</u>	<u>\$ 111,778,110</u>	<u>\$ 39,941,999</u>	<u>\$ 19,686,181</u>
Cash and short-term investments	20,222,659			
Accrued interest and other	410,856			
	<u>\$ 192,039,805</u>			

The following table sets forth a summary of changes in the fair value of level 3 assets for the years ended September 30, 2011 and 2010:

	2011		2010	
	Guaranteed Investment Contracts	Private Equity	Guaranteed Investment Contracts	Private Equity
Beginning of year	\$ 17,030,927	\$ 2,655,254	\$ 61,573,630	\$ 4,172,254
Unrealized and realized gain (loss)	-0-	1,394,195	-0-	(1,517,000)
Purchases and sales, net	(17,030,927)	1,000,000	(44,542,703)	-0-
End of year	<u>\$ -0-</u>	<u>\$ 5,049,449</u>	<u>\$ 17,030,927</u>	<u>\$ 2,655,254</u>

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

Cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements: The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts payable, other current liabilities, salaries, wages and related liabilities and estimated third-party settlements approximate fair value based on short term maturity.

Long-term debt: Fair value of the System's fixed rate revenue bonds is based on current transacted value. The fair value of the System's remaining long-term debt approximates carrying value based upon the underlying nature of the related debt.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

6. LINE OF CREDIT

The Heart Hospital at Deaconess Gateway, LLC (Heart Hospital) has a line of credit available with a local financial institution. Amounts outstanding as of September 30, 2011 and 2010 were approximately \$1,100 and \$1,520,000, respectively. As of September 30, 2011, the line of credit maximum amount was \$4,000,000 bearing interest at the 30 day LIBOR rate plus 1.75%. Interest at September 30, 2011 was 3.00%. The line of credit is secured by accounts receivable, inventory and equipment and is due April 2012.

7. PENSION PLANS

The System offers a noncontributory defined benefit pension plan covering all eligible employees. Benefits are based on each participant's years of service and compensation. Contributions to the plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

The following table sets forth the funded status of the defined benefit plan and amounts recognized in the financial statements as of and for the years ended September 30, 2011 and 2010.

	2011	2010
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 178,156,621	\$ 167,647,128
Service cost	9,239,543	7,858,330
Interest cost	9,676,244	9,278,210
Benefits paid	(3,823,621)	(3,369,472)
Actuarial gain	(2,463,043)	(3,257,575)
Benefit obligation, end of year	<u>\$ 190,785,744</u>	<u>\$ 178,156,621</u>
Changes in plan assets		
Fair value of plan assets, beginning of year	\$ 122,468,339	\$ 108,641,769
Actual return on plan assets	176,322	9,192,042
Employer contributions	8,004,000	8,004,000
Benefits paid	(3,823,621)	(3,369,472)
Fair value of plan assets, end of year	<u>\$ 126,825,040</u>	<u>\$ 122,468,339</u>
Funded status		
Funded status of the plan, end of year	<u>\$ (63,960,704)</u>	<u>\$ (55,688,282)</u>
Amounts recognized in the consolidated balance sheets consist of		
Other long-term liabilities	<u>\$ (63,960,704)</u>	<u>\$ (55,688,282)</u>

DEACONESS HEALTH SYSTEM, INC.

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Other pension disclosures for 2011 and 2010 include:

	<u>2011</u>	<u>2010</u>
Amounts not yet reflected in net periodic benefit cost and included in other changes in unrestricted net assets		
Transition obligation asset (obligation)	\$ -0-	\$ -0-
Prior service cost	(66,561)	(86,312)
Accumulated loss	<u>(70,031,545)</u>	<u>(66,013,839)</u>
Other changes in unrestricted net assets	(70,098,106)	(66,100,151)
Cumulative employer contributions in excess of net periodic pension cost	<u>6,137,402</u>	<u>10,411,869</u>
Net amount recognized in the consolidated balance sheets	<u><u>\$ (63,960,704)</u></u>	<u><u>\$ (55,688,282)</u></u>
Components of net periodic benefit cost		
Service cost	\$ 9,239,543	\$ 7,858,330
Interest cost	9,676,244	9,278,210
Expected return on plan assets	(10,537,762)	(9,407,712)
Amortization of prior year service cost	19,751	19,751
Amortization of loss	<u>3,880,691</u>	<u>4,558,939</u>
Net periodic benefit cost	<u><u>\$ 12,278,467</u></u>	<u><u>\$ 12,307,518</u></u>
Other changes in unrestricted net assets		
Prior service cost arising during year	\$ -0-	\$ -0-
Net loss (gain) arising during year	7,898,398	(3,041,905)
Amortization of prior service cost	(19,751)	(19,751)
Amortization of loss	<u>(3,880,691)</u>	<u>(4,558,939)</u>
Total other changes in unrestricted net assets	<u><u>\$ 3,997,956</u></u>	<u><u>\$ (7,620,595)</u></u>
Estimated amounts that will be amortized from other changes in unrestricted net assets over the next fiscal year		
Amortization of transition (obligation) asset	\$ -0-	
Amortization of prior service (cost) credit	\$ (19,751)	
Amortization of loss	\$ (4,557,511)	
Weighted-average actuarial assumptions to determine benefit obligations of September 30		
Discount rate	5.40%	5.50%
Rate of compensation increase	3.50%	3.50%
Measurement date	9/30/11	9/30/10

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Weighted-average actuarial assumptions to determine net periodic pension cost as of September 30		
Discount rate	5.50%	5.60%
Expected long-term rate of return	8.50%	8.50%
Rate of compensation increase	3.50%	4.50%
Additional year end information		
Projected benefit obligation	\$ 190,785,744	\$ 178,156,621
Accumulated benefit obligation	\$ 167,709,765	\$ 150,058,858
Fair value of plan assets	\$ 126,825,040	\$ 122,468,339

The following is a schedule by year of expected benefit payments as of September 30, 2011

<u>Year Ending September 30,</u>	
2012	\$ 4,705,000
2013	5,334,000
2014	6,081,000
2015	6,814,000
2016	7,511,000
2017-2021	<u>52,419,000</u>
	<u><u>\$ 82,864,000</u></u>

Determination of net periodic pension cost for the years ended September 30, 2011 and 2010 is based on assumptions and census data as of January 1, 2011 and 2010, respectively.

The principal long-term determinant of a portfolio's investment return is its asset allocation. The plan allocation includes growth assets (60%) and fixed income (40%). In addition, active management strategies have added value relative to passive benchmark returns. The expected long-term rate of return assumption is based on the mix of assets in the plan, the long-term earnings expected to be associated with each asset class, and the additional return expected through active management. This assumption is periodically benchmarked against peer plans.

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

DEACONESS HEALTH SYSTEM, INC.

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The plan's weighted-average, asset allocations as of September 30, 2011 and 2010, by asset category, are as follows:

	<u>2011</u>	<u>2010</u>
Equity		
Mutual funds	29%	30%
Common/collective trusts	18%	18%
Common stocks	<u>4%</u>	<u>4%</u>
Total equity	<u>51%</u>	<u>52%</u>
Fixed income		
Mutual funds	34%	39%
Common/collective trusts	<u>10%</u>	<u>0%</u>
Total fixed income	<u>44%</u>	<u>39%</u>
Private equity	<u>5%</u>	<u>9%</u>
	<u>100%</u>	<u>100%</u>

The allocation strategy for the plan currently comprises approximately 50% to 70% growth investments (target of 60%) and 30% to 50% fixed-income investments (target of 40%). Within the growth investment classification, the plan asset strategy encompasses equity and equity-like instruments that are expected to represent approximately 60% of the System's plan asset portfolio of both public and private market investments. The largest component of these equity and equity-like instruments is public equity securities that are well diversified and invested in U.S. and international companies.

Fair value of mutual funds and marketable equity securities are based on the quoted prices in active markets. Common/collective trusts are valued at the net asset value on a private market that is not active. However, the underlying investments are traded on an active market. The fair value of the private equity funds is valued at the percentage ownership of the net asset value as reported to the plan by the individual managers.

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

The following is an analysis of fair value of the major classes of plan assets of September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Level 1		
Mutual funds		
Intermediate bond	\$ 43,010,627	\$ 47,638,620
Large blend	23,118,109	22,422,732
Foreign	13,814,049	14,002,494
Total mutual funds	<u>79,942,785</u>	<u>84,063,846</u>
Common stocks		
Financial services	1,290,814	1,854,533
Industrial	746,957	643,300
Other	2,651,926	2,534,259
Total common stocks	<u>4,689,697</u>	<u>5,032,092</u>
Total Level 1	84,632,482	89,095,938
Level 2		
Common/collective trusts	35,169,547	22,313,277
Level 3		
Private equity	6,253,887	10,606,536
	126,055,916	122,015,751
Cash equivalents	769,124	452,588
	<u>\$ 126,825,040</u>	<u>\$ 122,468,339</u>

The following is a summary of changes in the fair value of the level 3 assets for 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 10,606,536	\$ 8,694,341
Unrealized gains (losses) relating to instruments still still held at the reporting date	(628,533)	567,203
Purchases, sales, issuances and settlements, net	(3,724,116)	1,344,992
	<u>\$ 6,253,887</u>	<u>\$ 10,606,536</u>

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

The System expects to contribute in excess of the required funding amounts to its pension plan in 2012, currently approximating \$8,000,000.

The System also offers a 401k plan to eligible employees. Total expense for the System's matching contributions for eligible employees for 2011 and 2010 was approximately \$2,237,000 and \$2,473,000, respectively.

8. RELATED PARTY TRANSACTIONS

The System is a joint-owner of Deaconess Women's Hospital of Southern Indiana, LLC d/b/a The Women's Hospital, a 74 bed full-service women's health care facility located in Newburgh, Indiana. The System owns the building in which The Women's Hospital is located and leases the space to The Women's Hospital currently at \$230,000 per month with an option to increase that amount annually through June 2030. The System also carries a note receivable from the facility of approximately \$252,000 and \$357,000 as of September 30, 2011 and 2010, respectively.

The System is a joint owner of Evansville Surgery Center Associates, LLC (Surgery Center). As of September 30, 2011 and 2010, the System recorded liabilities to the Surgery Center of approximately \$2,653,000 and \$5,006,000, respectively. Additionally, the System recorded contract service expense related to the Surgery Center of approximately \$28,237,000 in 2011 and \$30,175,000 in 2010.

9. COMMITMENTS AND CONTINGENCIES

Operating leases

The System leases various equipment and facilities under operating leases expiring at various dates through 2020. Total lease expense for 2011 and 2010 was approximately \$11,495,000 and \$12,473,000, respectively. The following are the minimum lease payments for the years after September 30, 2011:

Year Ending September 30,	
2012	\$ 12,319,000
2013	10,670,000
2014	9,117,000
2015	8,414,000
2016	6,316,000
Thereafter	25,051,000
	<u>\$ 71,887,000</u>

DEACONESS HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SEPTEMBER 30, 2011 AND 2010

Litigation

The System is involved in litigation and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the System's future financial position, results from operations or cash flows.

Health Insurance

The System's employee health care insurance is provided through a combination of insured, self-insured and purchased re-insurance coverage from a commercial carrier. The System maintains an estimated liability for the amount of claims incurred but not reported. Substantially all employees are covered for major medical benefits. The self-insured health coverage carries a stop-loss maximum of \$200,000 per case with no aggregate limit.

SUPPLEMENTARY INFORMATION

DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEETS SEPTEMBER 30, 2011

	Consolidated Deaconess Health System	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic	Heart Care Health System, LLC	Progressive Health of Indiana, LLC	The Heart Hospital At Deaconess Gateway, LLC	Tri-State Radiation Oncology, LLC	Deaconess Health Plans, LLC
Assets									
Current assets									
Cash and cash equivalents	\$ 59,961,722	\$ -0-	\$ 49,494,960	\$ -0-	\$ 61,344	\$ 797,620	\$ 5,756,962	\$ 1,958,021	\$ 1,892,815
Funds held by trustee, current portion	7,247,329	-0-	7,247,329	-0-	-0-	-0-	-0-	-0-	-0-
Patient accounts receivable, net	119,897,554	-0-	106,088,671	6,298,664	-0-	6,683	7,018,810	484,726	-0-
Inventories	5,169,428	-0-	4,376,580	-0-	-0-	1,640	791,208	-0-	-0-
Prepaid expenses and other current assets	12,072,572	(3,227,519)	9,233,558	4,867,848	-0-	1,108,788	45,781	44,116	-0-
Total current assets	204,348,605	(3,227,519)	176,441,098	11,166,512	61,344	1,914,731	13,612,761	2,486,863	1,892,815
Investments limited as to use, less current portion									
Board designated funds	180,044,293	-0-	180,044,293	-0-	-0-	-0-	-0-	-0-	-0-
Temporarily restricted	8,353,428	-0-	8,353,428	-0-	-0-	-0-	-0-	-0-	-0-
Total investments limited as to use	188,397,721	-0-	188,397,721	-0-	-0-	-0-	-0-	-0-	-0-
Property and equipment									
Land and improvements	18,026,313	-0-	18,026,313	-0-	-0-	-0-	-0-	-0-	-0-
Buildings and fixed equipment	453,372,349	-0-	445,944,957	-0-	-0-	18,401	4,278,242	3,130,749	-0-
Movable equipment	203,373,194	-0-	197,373,237	5,693,802	1,030	110,723	-0-	-0-	194,402
	674,771,856	-0-	661,344,507	5,693,802	1,030	129,124	4,278,242	3,130,749	194,402
Less allowances for depreciation	384,842,904	-0-	379,651,400	2,614,697	1,030	59,738	2,322,042	-0-	193,997
	289,928,952	-0-	281,693,107	3,079,105	-0-	69,386	1,956,200	3,130,749	405
Construction in progress	69,578,108	-0-	68,414,173	167,956	-0-	-0-	995,979	-0-	-0-
Total property and equipment, net	359,507,060	-0-	350,107,280	3,247,061	-0-	69,386	2,952,179	3,130,749	405
Other assets									
Deferred financing costs	2,754,780	-0-	2,754,780	-0-	-0-	-0-	-0-	-0-	-0-
Investments in joint ventures and other	51,596,649	(14,748,892)	59,458,806	225,370	-0-	-0-	6,658,815	2,550	-0-
Total other assets	54,351,429	(14,748,892)	62,213,586	225,370	-0-	-0-	6,658,815	2,550	-0-
Total assets	\$ 806,604,815	\$ (17,976,411)	\$ 777,159,685	\$ 14,638,943	\$ 61,344	\$ 1,984,117	\$ 23,223,755	\$ 5,620,162	\$ 1,893,220

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DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEETS SEPTEMBER 30, 2011

	Consolidated Deaconess Health System	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic	Heart Care Health System, LLC	Progressive Health of Indiana, LLC	The Heart Hospital At Deaconess Gateway, LLC	Tri-State Radiation Oncology, LLC	Deaconess Health Plans, LLC
Liabilities and net assets									
Current liabilities									
Accounts payable and other current liabilities	\$ 34,586,775	\$ (3,227,519)	\$ 24,244,849	\$ 7,310,006	\$ (51,070)	\$ 161,599	\$ 5,542,599	\$ 516,941	\$ 89,370
Salaries, wages and related liabilities	30,380,298	-0-	25,635,289	4,034,780	-0-	423,289	98,032	188,908	-0-
Estimated third-party payor settlements	6,273,267	-0-	4,215,416	-0-	-0-	-0-	2,057,851	-0-	-0-
Accrued interest	1,076,281	-0-	1,076,030	-0-	-0-	-0-	251	-0-	-0-
Line of credit	1,131	-0-	-0-	-0-	-0-	-0-	1,131	-0-	-0-
Current portion of long-term debt	10,257,530	-0-	9,473,644	-0-	-0-	-0-	-0-	783,886	-0-
Total current liabilities	82,575,282	(3,227,519)	64,645,228	11,344,786	(51,070)	584,888	7,699,864	1,489,735	89,370
Long-term liabilities									
Long-term debt, less current portion	228,251,902	-0-	226,364,796	-0-	-0-	-0-	-0-	1,887,106	-0-
Other long-term liabilities	69,426,151	-0-	69,251,861	-0-	-0-	-0-	-0-	174,290	-0-
Total long-term liabilities	297,678,053	-0-	295,616,657	-0-	-0-	-0-	-0-	2,061,396	-0-
Total liabilities	380,253,335	(3,227,519)	360,261,885	11,344,786	(51,070)	584,888	7,699,864	3,551,131	89,370
Net assets									
Unrestricted	408,544,371	(24,202,573)	408,544,372	3,294,157	112,414	1,399,229	15,523,891	2,069,031	1,803,850
Temporarily restricted	8,353,428	-0-	8,353,428	-0-	-0-	-0-	-0-	-0-	-0-
Net assets - controlling interest	416,897,799	(24,202,573)	416,897,800	3,294,157	112,414	1,399,229	15,523,891	2,069,031	1,803,850
Non-controlling interest	9,453,681	9,453,681	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Total net assets	426,351,480	(14,748,892)	416,897,800	3,294,157	112,414	1,399,229	15,523,891	2,069,031	1,803,850
Total liabilities and net assets	\$ 806,604,815	\$ (17,976,411)	\$ 777,159,685	\$ 14,638,943	\$ 61,344	\$ 1,984,117	\$ 23,223,755	\$ 5,620,162	\$ 1,893,220

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DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENTS OF OPERATIONS YEAR ENDED SEPTEMBER 30, 2011

	Consolidated Deaconess Health System	Eliminations	Deaconess Health System Obligated Group	Deaconess Clinic	Heart Care Health System, LLC	Progressive Health of Indiana, LLC	The Heart Hospital At Deaconess Gateway, LLC	Tri-State Radiation Oncology, LLC	Deaconess Health Plans, LLC
Unrestricted revenue and other support									
Net patient service revenue	\$ 620,370,570	\$ -0-	\$ 511,804,710	\$ 52,231,873	\$ 6,685	\$ 1,907,942	\$ 46,857,653	\$ 7,561,707	\$ -0-
Other revenue	26,360,537	(1,977,530)	16,303,518	451,998	-0-	10,668,163	70	-0-	914,318
Total unrestricted revenue and other support	646,731,107	(1,977,530)	528,108,228	52,683,871	6,685	12,576,105	46,857,723	7,561,707	914,318
Expenses									
Salaries and wages	239,543,636	-0-	188,011,175	41,797,965	-0-	7,512,400	-0-	1,685,144	536,952
Employee benefits	63,330,590	-0-	55,866,754	7,463,836	-0-	-0-	-0-	-0-	-0-
Supplies	110,157,178	-0-	91,301,314	4,406,942	-0-	86,545	14,350,782	-0-	11,595
Contract services	67,034,869	(12,808,911)	53,430,235	7,316,931	5,609	903,504	17,516,583	641,828	29,090
Repairs and maintenance	19,266,601	-0-	17,693,309	411,654	-0-	90,026	415,581	656,031	-0-
Provision for bad debts	29,515,858	-0-	26,463,110	1,044,510	-0-	76,776	1,910,757	20,705	-0-
Depreciation and amortization	36,192,720	-0-	34,072,334	914,334	-0-	18,825	527,035	622,378	37,814
Interest	9,309,117	-0-	9,065,847	-0-	-0-	-0-	4,741	238,529	-0-
Utilities	13,176,217	-0-	11,264,168	1,546,846	-0-	53,945	299,064	-0-	12,194
Other	29,013,504	(457,649)	18,016,534	6,800,395	304	433,470	3,533,028	542,736	144,686
Total expenses	616,540,290	(13,266,560)	505,184,780	71,703,413	5,913	9,175,491	38,557,571	4,407,351	772,331
Income (loss) from operations	30,190,817	11,289,030	22,923,448	(19,019,542)	772	3,400,614	8,300,152	3,154,356	141,987
Nonoperating gains									
Investment income and other nonoperating	6,249,827	-0-	6,240,881	3,683	-0-	-0-	1,136	-0-	4,127
Excess revenues over (under) expenses	36,440,644	11,289,030	29,164,329	(19,015,859)	772	3,400,614	8,301,288	3,154,356	146,114
Other changes in unrestricted net assets									
Net unrealized loss on investments	(3,792,012)	-0-	(3,792,012)	-0-	-0-	-0-	-0-	-0-	-0-
Pension related changes other than net periodic pension cost	(3,997,956)	-0-	(3,997,956)	-0-	-0-	-0-	-0-	-0-	-0-
Other changes in unrestricted net assets	200,000	-0-	200,000	-0-	-0-	-0-	-0-	-0-	-0-
Capital contributions	-0-	(17,833,519)	-0-	17,833,519	-0-	-0-	-0-	-0-	-0-
Distributions	-0-	13,089,573	-0-	-0-	-0-	(3,678,602)	(5,619,796)	(3,126,001)	(665,174)
Change in unrestricted net assets	28,850,676	6,545,084	21,574,361	(1,182,340)	772	(277,988)	2,681,492	28,355	(519,060)
Temporarily restricted net assets									
Contributions, gifts, and bequests	1,293,267	-0-	1,293,267	-0-	-0-	-0-	-0-	-0-	-0-
Net unrealized gain on investments	228,224	-0-	228,224	-0-	-0-	-0-	-0-	-0-	-0-
Investment income	341,281	-0-	341,281	-0-	-0-	-0-	-0-	-0-	-0-
Net assets released from restriction	(1,639,833)	-0-	(1,639,833)	-0-	-0-	-0-	-0-	-0-	-0-
Change in temporarily restricted net assets	222,939	-0-	222,939	-0-	-0-	-0-	-0-	-0-	-0-
Consolidated change in net assets	29,073,615	6,545,084	21,797,300	(1,182,340)	772	(277,988)	2,681,492	28,355	(519,060)
Less amount attributable to non-controlling interest	(7,276,318)	(7,276,318)	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Change in net assets attributable to controlling interest	\$ 21,797,297	\$ (731,234)	\$ 21,797,300	\$ (1,182,340)	\$ 772	\$ (277,988)	\$ 2,681,492	\$ 28,355	\$ (519,060)

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DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEETS – DEACONESS HEALTH SYSTEM OBLIGATED GROUP SEPTEMBER 30, 2011

	Deaconess Health System Obligated Group	Eliminations	Deaconess Health System, Inc.	Deaconess Hospital, Inc.
Assets				
Current assets				
Cash and cash equivalents	\$ 49,494,960	\$ -0-	\$ 2,006,578	\$ 47,488,382
Funds held by trustee, current portion	7,247,329	-0-	-0-	7,247,329
Patient accounts receivable, net	106,088,671	-0-	-0-	106,088,671
Inventories	4,376,580	-0-	-0-	4,376,580
Prepaid expenses and other current assets	9,233,558	(209,237)	79,788	9,363,007
Total current assets	176,441,098	(209,237)	2,086,366	174,563,969
Investments limited as to use, less current portion				
Board designated funds	180,044,293	-0-	-0-	180,044,293
Temporarily restricted	8,353,428	-0-	-0-	8,353,428
Total investments limited as to use	188,397,721	-0-	-0-	188,397,721
Property and equipment				
Land and improvements	18,026,313	-0-	3,460,502	14,565,811
Buildings and fixed equipment	445,944,957	-0-	37,258,126	408,686,831
Movable equipment	197,373,237	-0-	224,545	197,148,692
	661,344,507	-0-	40,943,173	620,401,334
Less allowances for depreciation	379,651,400	-0-	26,159,134	353,492,266
	281,693,107	-0-	14,784,039	266,909,068
Construction in progress	68,414,173	-0-	801,405	67,612,768
Total property and equipment, net	350,107,280	-0-	15,585,444	334,521,836
Other assets				
Deferred financing costs	2,754,780	-0-	-0-	2,754,780
Investments in joint ventures and other	59,458,806	(73,229)	3,294,158	56,237,877
Total other assets	62,213,586	(73,229)	3,294,158	58,992,657
Total assets	\$ 777,159,685	\$ (282,466)	\$ 20,965,968	\$ 756,476,183

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DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEETS – DEACONESS HEALTH SYSTEM OBLIGATED GROUP SEPTEMBER 30, 2011

	Deaconess Health System Obligated Group	Eliminations	Deaconess Health System, Inc.	Deaconess Hospital, Inc.
Liabilities and net assets				
Current liabilities				
Accounts payable and other current liabilities	\$ 24,244,849	\$ (209,237)	\$ 213,511	\$ 24,240,575
Salaries, wages and related liabilities	25,635,289	-0-	-0-	25,635,289
Estimated third-party payor settlements	4,215,416	-0-	210,610	4,004,806
Accrued interest	1,076,030	-0-	349,387	726,643
Current portion of long-term debt	9,473,644	-0-	-0-	9,473,644
Total current liabilities	64,645,228	(209,237)	773,508	64,080,957
Long-term liabilities				
Long-term debt, less current portion	226,364,796	-0-	-0-	226,364,796
Other long-term liabilities	69,251,861	-0-	-0-	69,251,861
Total long-term liabilities	295,616,657	-0-	-0-	295,616,657
Total liabilities	360,261,885	(209,237)	773,508	359,697,614
Net assets				
Unrestricted	408,544,372	(73,229)	20,192,460	388,425,141
Temporarily restricted	8,353,428	-0-	-0-	8,353,428
Net assets - controlling interest	416,897,800	(73,229)	20,192,460	396,778,569
Non-controlling interest	-0-	-0-	-0-	-0-
Total net assets	416,897,800	(73,229)	20,192,460	396,778,569
Total liabilities and net assets	\$ 777,159,685	\$ (282,466)	\$ 20,965,968	\$ 756,476,183

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DEACONESS HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENTS OF OPERATIONS – DEACONESS HEALTH SYSTEM OBLIGATED GROUP YEAR ENDED SEPTEMBER 30, 2011

	Deaconess Health System Obligated Group	Eliminations	Deaconess Health System, Inc.	Deaconess Hospital, Inc.
Unrestricted revenue and other support				
Net patient service revenue	\$ 511,804,710	\$ -0-	\$ -0-	\$ 511,804,710
Other revenue (expense)	16,303,518	(1,446,118)	(15,730,023)	33,479,659
Total unrestricted revenue and other support	528,108,228	(1,446,118)	(15,730,023)	545,284,369
Expenses				
Salaries and wages	188,011,175	-0-	-0-	188,011,175
Employee benefits	55,866,754	-0-	-0-	55,866,754
Supplies	91,301,314	-0-	-0-	91,301,314
Contract services	53,430,235	-0-	1,207,729	52,222,506
Repairs and maintenance	17,693,309	-0-	125,955	17,567,354
Provision for bad debts	26,463,110	-0-	-0-	26,463,110
Depreciation and amortization	34,072,334	-0-	1,051,498	33,020,836
Interest	9,065,847	-0-	-0-	9,065,847
Utilities	11,264,168	-0-	545,715	10,718,453
Other	18,016,534	(1,446,118)	736,281	18,726,371
Total expenses	505,184,780	(1,446,118)	3,667,178	502,963,720
Income (loss) from operations	22,923,448	-0-	(19,397,201)	42,320,649
Nonoperating gains				
Investment income and other nonoperating	6,240,881	-0-	2,436	6,238,445
Excess revenues over (under) expenses	29,164,329	-0-	(19,394,765)	48,559,094
Other changes in unrestricted net assets				
Net unrealized loss on investments	(3,792,012)	-0-	-0-	(3,792,012)
Pension related changes other than net periodic pension cost	(3,997,956)	-0-	-0-	(3,997,956)
Other changes in unrestricted net assets	200,000	-0-	200,000	-0-
Transfers	-0-	-0-	17,633,519	(17,633,519)
Change in unrestricted net assets	21,574,361	-0-	(1,561,246)	23,135,607
Temporarily restricted net assets				
Contributions, gifts, and bequests	1,293,267	-0-	-0-	1,293,267
Net unrealized gain on investments	228,224	-0-	-0-	228,224
Investment income	341,281	-0-	-0-	341,281
Net assets released from restriction	(1,639,833)	-0-	-0-	(1,639,833)
Change in temporarily restricted net assets	222,939	-0-	-0-	222,939
Consolidated change in net assets	<u>\$ 21,797,300</u>	<u>\$ -0-</u>	<u>\$ (1,561,246)</u>	<u>\$ 23,358,546</u>

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